

8 December 2023

Sustainable Finance Unit
Climate and Energy Division
The Treasury
Langton Cres
Parkes ACT 2600

By email: sustainablefinanceconsultation@treasury.gov.au

Dear Sustainable Finance Unit

Re: Australia's Sustainable Finance Strategy

Green Building Council of Australia (GBCA) welcomes the opportunity to provide input to The Treasury's consultation on a sustainable finance strategy for Australia. Australia's built environment offers significant opportunities for emissions reduction, but improved collaboration between the real estate and finance sectors in Australia will be essential to meet our nation's climate goals and realise the potential of the built environment sector to deliver on a range of sustainable outcomes.

This consultation is timely as GBCA recently released [Unlocking the value: A practical guide for sustainable finance in the Australian real estate sector](#) (*Unlocking the value*) in partnership with the Australian Sustainable Finance Institute (ASFI) and with the support and contributions of NABERS, GRESB, Climate Bonds Initiative, International Well Building Institute, Living Futures Institute Australia, Property Council of Australia and other industry leaders. This report details the potential of Australia's built environment and identifies how challenges and barriers can be overcome to accelerate sustainable finance opportunities and deliver a range of benefits.

GBCA's purpose is to lead the sustainable transformation of the built environment. We do this primarily through our core functions:

- We rate the sustainability of buildings, fitouts and communities through Australia's largest national, voluntary, holistic rating system – Green Star.
- We educate industry, government practitioners and decision-makers, and promote green building programs, technologies, design practices and operations.
- We advocate policies and programs that support our vision and purpose.
- We collaborate with our members and other stakeholders to achieve our mission and strategic objectives.

Green Star is Australia's most widely used sustainability rating system for the design, construction and performance of buildings – including social infrastructure – fitouts and communities. Green Star aims to transform the built environment by:

- reducing the impact of climate change
- enhancing our health and quality of life
- restoring and protecting our planet's biodiversity and ecosystems
- driving resilient outcomes for buildings, fitouts, and communities
- contributing to market transformation and a sustainable economy.

GBCA represents more than 650 member organisations which reflect the diversity of Australian business with over 400 small-to-medium enterprises through to 100 companies with annual turnover of more than \$100 million and 27 companies listed in the ASX200, with a combined market capitalisation of more than \$550 billion. Our members include major developers, professional services firms, banks, superannuation funds, product manufacturers, retailers, utilities and suppliers. We also have more than 30 local government members, more than 30 federal and state government departments and land organisations, and 22 university/education members.

The opportunity

While the built environment has enormous capacity to reduce overall emissions, in its latest report the Intergovernmental Panel on Climate Change (IPCC) highlights the critical role the finance sector must play. Despite significant developments in addressing climate change, resource management, and biodiversity in the real estate sector, Australia's contribution to global sustainable finance products in real estate hasn't progressed as rapidly. If existing barriers to investment can be reduced, there is sufficient global capital available to rapidly reduce greenhouse gas emissions and speed the sustainable transition of our built environment.

Buildings account for over 50% of electricity use in Australia and almost a quarter of its emissions. The built environment has the technology to decarbonise now, but we must do this at speed and scale to smooth the way for other hard-to-abate sectors and achieve Australia's legislated emission reduction targets.¹

The commercial real estate sector boasts over 859 million square metres² of floor space. This number is projected to double by 2050 to accommodate the growing demand for offices, retail spaces, and other facilities. The residential sector has approximately 10.9 million dwellings³ as of June 2022, with approximately 200,000 built every year, about 50% of which are apartments. By 2040, it is expected that number to increase by 43%.⁴ Of the existing dwellings, approximately 5.2 million are connected to the gas network,⁵ with another million using propane.⁶

80% of the buildings that will exist in 2050 already exist today. Improving energy efficiency and transitioning these buildings to renewable energy represents another major opportunity for sustainable financing. Transition funding is crucial for various projects, including electrification, HVAC system upgrades, chiller system revamps, and the introduction of building management systems to continue reducing energy demand. In fact, to achieve net-zero carbon targets by 2050, Australia must:

- Electrify more than 500 homes a day, every day, including weekends, and also improve the energy efficiency of 100 more (approximately 200,000 homes and apartments a year)

¹ GBCA & Property Council of Australia. 2023. Every Building Counts – For the Federal Government.

<https://everybuildingcounts.com.au/wp-content/uploads/sites/37/2023/04/Every-Building-Counts-2023-Edition.pdf>

² KPMG. 2023. Banking on the climate transition. <https://assets.kpmg.com/content/dam/kpmg/au/pdf/2023/banking-on-the-climate-transition.pdf>

³ Australian Bureau of Statistics. 2022. 10.9 million dwellings in Australia in 2022. [https://www.abs.gov.au/media-centre/media-releases/109-million-dwellings-australia-june-2022#:~:text=There%20are%20an%20estimated%2010.9,Bureau%20of%20Statistics%20\(ABS\).](https://www.abs.gov.au/media-centre/media-releases/109-million-dwellings-australia-june-2022#:~:text=There%20are%20an%20estimated%2010.9,Bureau%20of%20Statistics%20(ABS).)

⁴ ABS. 2019. Household and family projections, Australia. <https://www.abs.gov.au/statistics/people/population/household-and-family-projections-australia/latest-release>

⁵ Energy Networks Australia. 2021. Reliable and clean gas for Australian homes. <https://www.energynetworks.com.au/resources/fact-sheets/reliable-and-clean-gas-for-australian-homes-2/>

⁶ connectnow. 2020. <https://connectnow.com.au/what-we-connect/bottled-gas>

- Retrofit nearly 3.5% of its current non-residential stock annually, a significant jump from the present rate of 1%. This would mean increasing the current rate of investment in retrofits from \$500 million AUD to about \$1.5-\$2 billion AUD.⁷

Energy efficiency measures in buildings alone could deliver \$20 billion in energy bill savings for businesses and households, and 64MT of avoided CO₂e emissions by 2050. Electrifying the built environment could deliver \$49 billion in energy savings between 2024 and 2050 compared to BAU, along with 199MT of avoided CO₂e emissions.⁸

Recommendations for developing a Sustainable Finance Strategy

GBCA commends the Australian Government on its commitment to developing a Sustainable Finance Strategy and we enthusiastically support its development while making the following recommendations:

- 1. A Sustainable Finance Strategy for Australia should build on existing frameworks and the achievements of Australia's property sector.** There have already been considerable achievements and progress by many within the built environment sector (please see *Unlocking the value* pp.10-11) and it is critical that a Sustainable Finance Strategy is developed in close consultation and collaboration with industry to ensure that existing, sector-based sustainability tools and rating frameworks that are already highly regarded by global investors – such as Green Star and NABERS – are harnessed and elevated and not disrupted. The Australian Government should provide support to, and work with GBCA and NABERS to develop agreed definitions for use in the built environment sector (for example, defining scopes) and to define what will be regarded as the successful outcomes and achievements of a Sustainable Finance Strategy.
- 2. There must be clarity on how the Sustainable Finance Strategy will align with and support delivery of targets that will be a part of the Net Zero Plan for the built environment sector.** The Australian Government should accelerate delivery of the built environment sectoral plan to support the development of the Sustainable Finance Strategy. Setting a clear pathway to achieving net zero (as it is defined by the Australian Government) by 2050 or sooner, with agreed interim targets, is critical to ensure the built environment plays its part in the collective efforts to achieve a net zero economy, as well as underpinning a Sustainable Finance Strategy.
- 3. Look beyond emissions reductions to ensure that a Sustainable Finance Strategy truly captures the full potential of sustainable outcomes that can be targeted, measured, delivered and verified with increased investment and the right tools and frameworks.** Rating tools such as Green Star provide a robust and credible framework for measuring not only the climate impacts of buildings and master planned communities, but also resource efficiency and circularity, nature and biodiversity, health and wellbeing and other social outcomes.
- 4. Maintain a firm stance on greenwashing.** The Sustainable Finance Strategy must reinforce the position of the Australian Competition and Consumer Commission to proactively ensure that all sustainability claims are independently and credibly verified.

⁷ CBRE. 2022. Green Finance Report 2022. <https://7bc40775.flowpaper.com/GreenFinance/Opportunity-in-green-buildings-and-low-carbon-retro-fits.html>

⁸ ASBEC. 2022. Unlocking the pathway: Why electrification is the key to net zero buildings. <https://www.asbec.asn.au/wordpress/wp-content/uploads/2022/12/ASBEC-Unlocking-the-pathway.pdf>

5. **Ensure there is flexibility to recognise the dynamic nature of the market in accessing sustainability-linked capital.** Industry consultation will be required in the development of policy, programs and regulatory settings to ensure that market supervision introduced as an output of a Sustainable Finance Strategy will deliver intended outcomes, encourage innovation and allow appropriate responses to evolving market demands, without becoming too prescriptive or increasing compliance burdens.
6. **Continue to support the work underway by ASFI in the development of an Australian Sustainable Finance Taxonomy and prioritise international alignment and recognition of Australia's sustainable finance taxonomy across jurisdictions.** The current lack of standardised international benchmarks makes it difficult to effectively evaluate projects' sustainability performance and is holding back progress.
7. **Include greater consideration of coordination, skills and competencies that will be required across the economy to implement the Strategy.** In developing *Unlocking the value*, GBCA spoke to industry leaders who each identified similar observations and recommendations to ensure the success of efforts to increase sustainability investment (please see *Unlocking the value*, p.41).
8. **Provide further opportunities for detailed industry engagement on each policy proposed for inclusion in the strategy.** We note that the Treasury's work to introduce mandatory climate-related financial disclosure is well underway, and the final design of those reforms will likely inform the detailed policy settings relating to many of the priorities set out in this consultation paper. Relevant departments should consider how the development of new policies will link to the Sustainable Finance Strategy and facilitate timely and comprehensive industry engagement. This will harness the expertise and support of industry in developing a cohesive and well-designed Sustainable Finance Strategy and give it the best opportunity for ongoing success.

In addition to the recommendations above, GBCA provides the following comments on priorities outlined in the consultation paper:

Priority 1: Establish a framework for sustainability related financial disclosures

GBCA supports a sustainability related financial disclosure framework that aligns with existing international frameworks already in use, such as the International Financial Reporting Standards.

The Australian built environment represents huge opportunities for attracting international finance while delivering emissions reductions and a range of sustainability outcomes. We note that the Australian property sector has long been a leader in benchmarking and disclosure and is well-positioned to facilitate the more efficient adoption of sustainable finance mechanisms and drive positive environmental impact in a range of ways across our built environment.

In the past decade there has been a significant shift in the finance sector to support sustainable projects through green bonds and loans. This sustainable finance revolution demands asset owners and entities deliver high quality, verified outcomes against criteria set by multiple international frameworks. Tools used by the Australian property sector are ready to be used to demonstrate compliance, not only against energy and carbon metrics, but just as critically, against metrics for nature and biodiversity, resilience and adaptation, circular economy, and social impacts such as wellbeing, modern slavery, inclusion and equity.

Unlocking the value provides detail of existing real estate verification frameworks already in use in Australia to support sustainable finance and investment and details how these are being used to measure and verify performance against a range of sustainability metrics.

Priority 2: Develop a Sustainable Finance Taxonomy

GBCA supports ASFI in the ongoing development of an Australian Sustainable Finance Taxonomy which it commenced in July 2023, with the support of the Australian Government and oversight by the Australian Council of Financial Regulators' Climate Working Group (CWG). This partnership reflects a shared appetite across government and industry for new frameworks that support the growth of credible sustainable finance markets in Australia.

The taxonomy's initial development phase includes the creation of climate mitigation technical screening criteria for priority sectors including the built environment. Australia is well-positioned for advancing specific guidance for the built environment sector in an Australian taxonomy, given the frameworks that are already in place to facilitate investment in property assets with verified sustainability credentials.

Please see *Unlocking the value*, p.26 for further information.

Priority 3: Support credible net zero transition planning

GBCA agrees that it is critical for a Sustainable Finance Strategy to support credible net zero transition planning. Australia's built environment already has credible pathways towards net zero built into the Green Star and NABERS rating tools, both widely used in Australia's built environment and these should be harnessed and elevated in the development of a Sustainable Finance Strategy and not disrupted.

GBCA established a definition for Climate Positive Buildings in 2017 to describe an optimal 1.5C degree pathway for Australia's built environment. It addresses both assets and entities, recognises that different scopes need to be treated differently, and sets specific energy and upfront carbon reduction targets to drive transformation at the asset level. Please see *Unlocking the value* pp.119-122 for information about how Green Star Buildings and Green Star Performance have set targets for this definition which progress over time.

GBCA, together with industry allies such as Property Council of Australia and the Australian Sustainable Built Environment Council (ASBEC), welcomed the Australian Government's announcement of the development of a Net Zero Plan for the built environment. Development of a Net Zero Plan for the built environment will accelerate decarbonisation in the built environment properly aligned with action and policies across different levels of government. GBCA urges the Australian Government to prioritise and accelerate the development of the Net Zero Plan for the built environment to ensure alignment with, and support the development of, a Sustainable Finance Strategy.

Priority 4: Develop a labelling system for investment products marketed as sustainable

GBCA encourages the Australian Government to provide further information about the intended scope of policy relating to the labelling of sustainability-linked finance. The development of labelling policy must be aligned with property sector frameworks already operating in the market. Further opportunity for industry consultation on draft policy will be critical to ensure that any new systems build on processes, systems and frameworks already in place.

The Sustainable Finance Strategy must also reinforce the position of the Australian Competition and Consumer Commission to proactively ensure that all sustainability claims are independently and credibly verified. Since its inception in 2002, GBCA has championed the value of independent, robust and credible verification of sustainability claims and our own Green Star certification process is accredited to ISO9001. Please see further information about why independent verification matters in *Unlocking the value*, p.103 and notes on the risks of equivalency on pp.68-81.

Priority 9: Issuing Australian sovereign green bonds

GBCA supports the issuance of Australian sovereign green bonds. We note the built environment is an appropriate and credible sector to focus on emissions reduction and the transition to more sustainable built environment can be accelerated by sovereign bonds.

Priority 11: Promoting international alignment

GBCA supports efforts to align international frameworks for both finance and built environment. The current lack of standardised international benchmarks makes it difficult to effectively evaluate projects' sustainability performance and is holding back progress and realising the potential of the sector. Please note GBCA's sixth recommendation above and see *Unlocking the value*, p.26, for more information.

Priority 12: Position Australia as a global sustainability leader

Australia is well-placed to become a global leader in sustainability, driven by sustainability-linked investment. The Australian real estate sector already produces examples of global leadership, with Australian funds often taking out the top spot in global performance under the GRESB standards and frequently appearing in the top tier of the Dow Jones Sustainability Index. Many Australian organisations have already set their own ambitions net zero targets and have embedded sustainability performance within their asset portfolios as well as broader company strategy (please see *Unlocking the value*, pp.41-46 for leading examples).

Australia has made a solid start and sustainability finance products designed for use in property are increasing. A well-designed, cohesive Sustainable Finance Strategy will make it easier for real estate businesses to align funding to their values and sustainability strategies and make Australia an even more attractive investment market for investors seeking high performance across a range of ESG metrics.

We look forward to working with The Treasury and other departments and agencies to provide input to the development of a Sustainable Finance Strategy and supporting policies. We also note the submission to this consultation made by Property Council of Australia as further evidence of industry enthusiasm for a well-designed, cohesive strategy that will build on existing frameworks and success to date. For more information and to arrange further consultation, please contact Katy Dean, Senior Policy Adviser, via email at katy.dean@gbca.org.au.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'D. Rooney'.

Davina Rooney
Chief Executive
Green Building Council of Australia